

BICOM Forecast

The Middle East in 2018

January 2018



KEY POINTS

- If the US cannot agree ways with international partners – including the UK – to address shortcomings in the Iran nuclear deal, US President Donald Trump may pull the US out of the deal. Trump has declared his administration will confront malign Iranian activities more broadly, though it remains unclear how this will be translated into policy.
- As ISIS wanes and political discussions on a “solution” in Syria continue, the UK and international community will face several challenges: preventing ISIS re-emerging; Iranian entrenchment and the risk of a clash with Israel; Russian domination and the status of other foreign forces; Jordan’s fears of Shi’ite militias along its border; and tension between Turkey and the Kurdish forces in the north.
- Iranian efforts to fill the vacuum left by ISIS significantly raises the potential for miscalculation, error and rapid escalation between Israel, Iran and its allies. The return of the Assad regime to southern Syria will pose additional dilemmas for Israel and potentially Jordan, while the return to Lebanon of Hezbollah forces will allow it to shore up its domestic support and refocus on Israel.
- While the British government has emphasised Jordan’s security, stability and economic sustainability as “central to a peaceful future in the Middle East,” the country continues to face significant domestic challenges from jihadism, a stuttering economy, and the inflow of refugees from the Syrian civil war.
- NATO member Turkey will continue to pose a challenge for Western policy makers with the recent deal to purchase Russian S-400 surface-to-air missiles and President Recep Tayyip Erdogan advancing a pro-Islamist ideology. A clash between Turkey and Kurdish forces also remains a real possibility.
- Newly appointed Saudi Crown Prince Muhammed Bin Salman (MBS) is expected to continue his determined efforts to position his country as the leader of a more assertive Sunni Arab camp seeking to contain the influence of Iran and its proxies. The Kingdom will have to manage mounting foreign policy challenges relating to its participation in the war in Yemen, its interventions in Lebanese domestic politics, and its confrontation with Qatar, whilst pursuing major domestic reforms which carry the risk of internal friction.
- In the Israeli-Palestinian arena, chances are waning that 2018 will be the year for a Trump administration peace initiative – certainly one accepted by both sides – and the newly revealed Palestinian internationalisation strategy may pose dilemmas for the UK government, which has already voted against the US twice in the UN in recent weeks. While the political process seems stalled, a Palestinian reconciliation agreement is stumbling and Gaza continues to suffer from a humanitarian crisis which shortens the fuse for a renewed conflict with Israel. There is also a high chance of elections in Israel.
- Egypt’s is another country to watch, due to its socio-economic and security challenges, combined with a forthcoming Presidential election.

INTRODUCTION: WHAT THE MIDDLE EAST MEANS FOR BRITAIN IN 2018

BICOM's third annual forecasting document is a guide for policy makers to the Middle East in 2018. The security and prosperity of all Western states will continue to be influenced by the Middle East which remains unstable and increasingly complex. Anticipating developments is extremely challenging in such an unpredictable region, as illustrated by the sudden and surprising outbreak of anti-regime protests in Iran in early 2018. Some major trends and issues can be discerned however. We begin with a brief recap of 2017, before grouping the plethora of overlapping issues into five areas:

1. The Trump administration's confrontation with Iran, including attempts to reshape the JCPOA and to co-opt European allies towards this end.
2. The consequences of the territorial defeat of ISIS and de-escalation in Syria, including: Russian entrenchment; increased Iranian influence; Israeli and Jordanian concerns in the south; and Turkish/Kurdish tension in the north.
3. Saudi moves to assert themselves internationally and the regional consequences especially in Lebanon and Yemen.
4. The Israeli-Palestinian arena including the potential for a Trump peace plan; the consequences of the administration's Jerusalem announcement; the fate of the Palestinian reconciliation process; and the prospects for early Israeli elections.
5. An uncertain outlook for Egypt facing elections amid an escalating insurgency.

2017 IN REVIEW

In BICOM's 2017 Forecasting paper, we anticipated the territorial defeat of ISIS in Iraq and the strengthening of President Bashar Assad's position in Syria, with associated implications for Britain in the shape of returning ISIS fighters raising the risk of terror attacks in Europe, and the expansion of Iranian influence in Syria. Indeed, the efforts by Iran and its

proxies led by Hezbollah to entrench themselves in areas of Syria close to Israel's borders on the Golan Heights has become Israel's most pressing national security concern and a major conflict risk. We also flagged up the growing challenge of ISIS inspired violence in the Sinai.

The big imponderable a year ago was the policy of the incoming Trump administration. We anticipated his search for common ground with Russia, which has been expressed through US backing for ceasefire arrangements and leaving Russia dominant in Syria. We also noted his scepticism towards the JCPOA nuclear deal to which Britain is a party, and this was expressed in his October decision not to certify the deal, and his appeal to Congress and European allies for help to fix its flaws. This has come alongside a clear attempt to rebuild alliances with Sunni Arab Gulf states spurned by former President Barack Obama, as well as Trump's efforts to show warmth and avoid public policy gaps with Israel, which were clearly flagged in his election campaign. More surprising has been Trump's apparent determination to focus on the Israeli-Palestinian arena: appointing envoy Jason Greenblatt; tasking his son-in-law Jared Kushner with oversight of the issue; meeting personally and repeatedly with Israeli and Palestinian leaders; and then deciding to recognise Jerusalem as Israel's capital.

A year ago we remarked on the significance of reforms in Saudi Arabia, though few could have anticipated the boldness of Saudi policy led by MBS, who became Crown Prince in June. The Kingdom has led four Arab states to cut off diplomatic relations with Qatar over the latter's links to the Muslim Brotherhood and Iran, and played a significant role in the (temporary) resignation of Lebanese Prime Minister Saad Hariri, whilst maintaining a blockade in Yemen in the midst of rapidly escalating international concerns for a humanitarian disaster. Internally, the Saudi Government has launched an extraordinary corruption crackdown by arresting dozens of highly wealthy Saudi individuals.

Our 2017 forecast highlighted questions over succession in the Palestinian Authority (PA) with President Mahmoud Abbas turning 82. In fact, the big surprise in 2017 was the reconciliation between the PA and Hamas in the Gaza Strip, which has gone further than previous efforts, though still facing considerable challenges. This

followed Hamas issuing a new political program in May 2017, in which it sought to distance itself from the Muslim Brotherhood and project a more pragmatic image in the region (although the document fell short of the minimum the international community demands for Hamas to have a seat around the diplomatic table).

Another significant regional development was the holding of a referendum on independence in the Kurdish region of Iraq in September, which triggered a backlash when Iraqi military forces re-took control of disputed areas on the margins of the Kurdish autonomous areas, including the important oil-rich city of Kirkuk.

WHAT TO LOOK OUT FOR IN 2018

1. US confrontation with Iran

President Trump, in his non-certification speech on 13 October 2017, declared a new policy to confront Iran, including working with Congress and European allies to address flaws in the JCPOA nuclear agreement, which he has otherwise threatened to terminate. His public backing for anti-regime protests in Iran in early January – which while short lived reflect the underlying and growing gap between the Iranian regime and wider society – are indicative of this step-up in efforts to confront Iran.

So far this amounts to more rhetoric than action. However, in 2018 the administration can be expected to intensify its pressure on Iran with the new US National Security Strategy vowing to “neutralise Iranian malign influence”. On Iran’s nuclear programme, Republican Senators have floated legislative proposals that would threaten a “snapback” of US sanctions on Iran based on tighter conditions than those in the JCPOA, although it is far from clear this would have majority support in Congress. This would include extending the restrictions on Iranian enrichment beyond the 10-15 year “sunset” period as specified in the deal. So far America’s European co-signatories – Britain, France and Germany – have resisted such steps, which they fear would collapse the deal completely, but have offered little in the way of practical suggestions of how to fix the agreement. Trump will face a decision in mid-January about whether to extend waivers on US-targeted sanctions, and

Washington could use European concerns that Trump will collapse the deal to secure their cooperation in toughening their collective stance against Iran.

An area not addressed by the nuclear deal is Iranian missile development. The Iranians have already tested a Khorramshahr missile with a 2,000km range, capable of bearing a nuclear warhead, and are making attempts to deploy precise medium-range missiles in Syria and Lebanon. This is an issue where the US and Europe may try to work together in 2018. British Prime Minister Theresa May said in a speech in Jordan in November 2017 that the UK would “strengthen [its] response to Iran’s ballistic missile programme and its proliferation of weapons”. French President Emmanuel Macron has talked about a sanctions backed negotiation to limit Iran’s missile programme. However, it remains to be seen how Iran will react. Israeli intelligence experts have expressed deep scepticism about Iranian willingness to accept restrictions on its missile programme or inspections to military sites, another area where the US may apply pressure.

If the problems of the sunset clause, monitoring sites, and ballistic missile tests are not alleviated by the international community, there is a possibility Trump will announce the US is leaving the deal. Although the US foreign policy establishment is generally wary of the US leaving the JCPOA, the absence of practical agreed suggestions of how to fix the deal opens the possibility (and fear) that Trump will fully withdraw from what he has referred to as a “terrible nuclear deal”.

2. The strategic challenges emanating from the defeat of ISIS and de-escalation in Syria

As ISIS is territorially defeated and political discussions on a “solution” to the Syrian civil war continue, this arena will pose a variety of challenges to the UK and international community in 2018: how to prevent ISIS re-emerging; Iranian entrenchment and a blurring of Israeli red lines; Syria’s political future under Russian domination and the status of other foreign forces including UK forces; Jordan’s fears of Shi’ite militias along its border; and tension

between Turkey and the Kurdish People's Protection Units (YPG) in the north.

Preventing ISIS from re-emerging

In December, the spokesperson for the US coalition of Operation Inherent Resolve – in which UK forces have played a significant role – declared that ISIS had lost over 98 per cent of its territory while Iraqi Prime Minister Haider al-Abadi declared that Iraq's military had retaken full control of the Iraqi-Syrian border. However, ISIS's "defeat" presents new pressing challenges for the Middle East and the West in 2018.

First is the challenge to prevent the emergence of ISIS 2.0. The risk of ISIS returning to areas of former control – such as Tikrit and in the western province of al-Anbar – is heightened by the inefficiencies of the central Iraqi government in providing security and basic services, as well as sectarian fault lines. Such lines have been entrenched with reports of government forces engaging in population expulsions, extrajudicial killings, and mass incarceration. Preventing ISIS reemerging in 2018, and after, will depend on the government ensuring displaced persons are able to return home and providing local authorities in Sunni areas the funds and political power to rebuild. Provincial and national elections scheduled for May 2018 provide an opportunity for central government and local leaders to begin reconciliation. The UK has around 600 military personnel stationed in Iraq, mainly training Iraqi forces, and on a recent visit, Prime Minister May announced £10m for Iraq's counter-terrorism capability. However, counter-terrorism can only go so far if the central government is not fully representative.

Second is the challenge of returning foreign-fighters. MI5 Director General Andrew Parker spoke in October 2017 of "a dramatic upshift in the threat [from Islamist terrorism]". More than 300 UK individuals of national security concern remain in the Middle East with the potential to return home, according to MI5 oral evidence to the House of Commons Intelligence Committee. Last year the UK suffered five terrorist attacks (four Islamist inspired) killing 41 people and leaving almost 200 more in hospital, its highest since 2006, with nine prevented in 2017. These attacks were planned during the territorial demise of ISIS, suggesting the ideology continues to inspire violence even as the so

called "Caliphate" collapses. As the Caliphate shrinks further its leadership will look to supporters overseas, including returnees, to keep the brand alive. The threat from foreign fighters comes from the synergy between the intent they may hold and the training they received as well as the network and radicalising impact they can have when they return.

Third is the challenge of ISIS seeking new safe havens. ISIS has evolved from accepting the allegiances of new provinces to creating new theatres of action itself, particularly in areas where it is relatively easy to operate and which already contain existing terrorist strongholds. Such places include Egypt's Sinai region, Kashmir and Afghanistan – which has already seen the rise of ISIS in five provinces. This suggests that many foreign ISIS fighters will turn to Taliban "liberated" territory in Afghanistan and the Pakistan tribal areas, creating challenges for the NATO support mission – including UK troops – in the country. ISIS fighters will also continue to pose a significant threat to Egypt, while reports that ISIS in southern Syria has experienced a swell in numbers, since its defeat in Raqqa, raises challenges for Israel and Jordan.

Iranian / Shi'ite entrenchment and a challenge to Israeli red lines

Much of the vacuum left by ISIS is being filled by Iran significantly raising the chances of a clash in 2018 between Israel and Iranian led forces in Lebanon and Syria. As the territorial footprint of ISIS continues to shrink, and their forces are destroyed or disperse, Iran will continue its efforts to entrench and legitimise the presence of its forces and proxies in Iraq and Syria.

Iran is working to create a land corridor stretching from Iran, through Iraq and Syria to Lebanon and plans on long-term military deployment in Syria for itself and its proxies. These now include a recently founded local Syrian – and thus "non-foreign" – "Hezbollah" type force. Iran has also been seeking a naval base as well as building facilities in Lebanon and Syria to manufacture accurate rockets for Lebanese Hezbollah and bases to house Shi'ite militias. This amounts to the creation of an Iranian sphere of direct influence in the heart of the Middle East in dangerous proximity to Israel and with negative consequences for Saudi Arabia, Iraq and Yemen. Israeli planners now believe that in a future war

with Hezbollah, Israel could face Syrian and Lebanese theatres as one front. In any event, Iran plans on remaining in Syria for the long term and received a boost in November when Russian Foreign Minister Sergey Lavrov said its presence in the country was “legitimate”.

There is a debate in Washington on whether to lead an effort with regional partners against Iran’s plans, or to focus narrowly on defeating ISIS. On this issue Trump’s “America First” isolationist instincts clash with his anti-Iranian rhetoric, and it remains to be seen if a clear strategy emerges in 2018. While some administration officials speak about the US staying in Syria, with thousands of troops, and promoting free elections without Assad, there is little in US policy to suggest this will happen. In fact US actions – notably support for Russian brokered “deconfliction” agreements – indicate the administration’s acceptance of Russian domination along with the presence of Iran.

In the absence of US leadership, Israel is expanding its Syria agenda and Israeli Prime Minister Benjamin Netanyahu has publicly stated – including at a recent speech at British think-tank Chatham House – that Israel will not allow Iran to establish a permanent presence there. This new “red line” appears to be behind the December airstrikes attributed to Israel, including one apparently targeting an Iranian base under construction. For several years, Israeli policy was to avoid intervention in Syria, and act only when its interests were directly threatened, specifically: in retaliation for any violation of Israeli sovereignty; to prevent game-changing weapons reaching Hezbollah in Lebanon; and to prevent Hezbollah or other hostile forces establishing infrastructure to threaten Israel. But the new goal of preventing any permanent Iranian presence – although Israel has purposefully kept it vague – potentially expands Israel’s involvement, and raises the possibility of a clash, especially as the full exclusion of Iran in Syria is unlikely to be achieved. Iran for its part will seek ways to deter Israel.

Some in Israel’s security establishment consider whether it may be possible to separate Assad from Iran, though given the extent of Assad’s dependency of Iranian ground forces, and his need for investment in reconstruction, many consider this an unrealistic hope. Certainly Israel

will continue to try and persuade the Trump administration and Russian President Vladimir Putin that it is in neither’s interests to allow Iran to enjoy a permanent military presence that it is seeking in Syria. So far Russia has generally not objected to Israel’s actions, but has not acted to curtail Iran either.

The return of the regime to southern Syria will pose additional dilemmas for Israel. The area around the Golan Heights was relatively quiet in 2017. But the regime’s conquest of Aleppo and Dir a-Zur in eastern Syria has freed up the Syrian army and Shi’ite militias to focus on other areas of the country. In late December, the regime, alongside Iran and Shi’ite militias, began an offensive to reassert its sovereignty over the area of southern Syria, bringing these actors even closer to Israel’s border.

Hezbollah will return to Lebanon strengthened militarily. The civil war is not yet over and there will still be fighting in Idlib that Hezbollah will be involved in. But the more the Russian-led ceasefire takes hold, the more likely that Hezbollah – buoyed by its success in the Syrian civil war and hardened by years of fighting experience, as well as its exposure to Russian military expertise – will refocus on entrenching itself even further into Lebanese state institutions (with Lebanese parliamentary elections due in 2018) and on confronting Israel, even if the organisation would prefer to wait for Iran to establish itself further in Syria before a war with Israel takes place.

These various strands create a combustible situation with high potential for miscalculation, error and rapid escalation between Israel, Iran and its allies. It is worth recalling that Iran’s most powerful proxy – Hezbollah – is easily the most potent military threat to Israel and its home front, with an estimated 120,000 missiles – hundreds of which are GPS guided – aimed at Israeli population centres from its bases in south Lebanon.

Russian influence in Syria and the future of foreign forces

Russia’s presence in Syria actually has a stabilising effect on this dangerous dynamic as Putin has an interest in maintaining calm to cement its regional influence. And while Russia and Iran are both close allies of Assad,

their interests do not completely converge – for example, Russia does not want to see Syria become an Iranian client state or housing Shi'ite bases. While driving a wedge between the two will not be possible, the challenge for Western policy makers will be how to exploit their differences to the best extent possible.

Russia will seek to advance a transition towards a political arrangement including elections, although the process will face many challenges, as countries in the West including the UK see the Geneva process as the only game in town and opposition groups still object to any arrangement which leaves Assad in power. Russia has announced that it is withdrawing some troops but also recently signed a law ratifying an agreement enabling it to expand operations at its naval facility in the Syrian port of Tartus. It is unclear to what extent Russia will be able to implement its oversight of the de-escalation areas in southern and central Syria, which are due to prevent Iranian troops and Shi'ite militias from approaching the border with Israel.

Another open question is the future of foreign forces in Syria. Lavrov recently called on countries that were not invited into Syria to leave. While the Iranians and the Russians were invited to stay by the regime, the approximately 2,000 American troops in the base in al-Tanf (which reportedly also include small numbers of UK special forces) may face pressure to withdraw.

Jordan's fears of Shi'ite militias and ISIS

The British Government has emphasised Jordan's security, stability and economic sustainability as "central to a peaceful future in the Middle East". More than 3,000 UK service personnel are currently involved in training Jordanian armed forces and Prime Minister May visited the country twice during 2017. With this in mind, British policy makers should be aware of the very significant challenges facing the Kingdom in 2018.

Jordan continues to face significant domestic challenges from the waves of refugees from the Syrian civil war. The approximately 1.4m Syrians (almost 15 per cent of its population) it hosts constitute a heavy burden. The World Bank estimates that they cost the Kingdom over

\$2.5bn a year, equivalent to nearly 18 per cent of its annual budget. The refugee crisis has also exacerbated Jordan's acute water shortage.

Jordan's economy suffers from problems other than refugee support. While Prime Minister May spoke about forming an economic partnership which would help Jordan deliver social and economic reforms, this may well require a change in government subsidies that would be domestically unpopular.

The jihadi threat to the Kingdom has not gone away. Over 2,500 Jordanians have joined jihadi groups in Syria and Iraq, and Jordan has been subjected to several terror attacks, mostly directed or inspired by ISIS. In November, security forces arrested 17 men allegedly belonging to ISIS who planned coordinated attacks around the country, including shopping malls and mosques.

Jordan continues to be concerned by the situation in southern Syria. Amman has been consistent in rejecting the presence of Iranian Revolutionary Guards and Shi'ite militias establishing themselves. It signed the de-escalation agreement with the US and Russia for southern Syria hoping it would distance both Sunni and Shi'ite radical elements from its border, although it has expressed concern that the agreement is not strong enough and that the offensive by the regime currently taking place in the northern Golan Heights will ultimately bring Iran and its allies to the border.

Turkey's Kurdish agenda and tension with the West

The Trump administration's National Security Strategy accuses elements in Turkey of "sponsoring radical Islamist ideology," which may be a harbinger of future tensions between the two countries. Certainly Turkey's close relations with jihadist fractions in Syria's Idlib province, where it has deployed troops, may be an additional point of friction with Washington. And Erdogan's rhetorically aggressive response to the administration's decision on Jerusalem could also cool ties.

Turkey will continue to pose a challenge for Western policy makers. In late December it signed a \$2.5bn deal with Russia for the supply of S-400 surface-to-air missiles that have no connectivity

with NATO systems. Erdogan is trying to model himself as the leader of the Muslim world and is supportive of Hamas, the Muslim Brotherhood and other Islamist elements.

In Syria, Turkey has shifted to a position that seemingly accepts Assad's inevitable presence in Syria's transition. However, Turkey's continued insistence that the Kurdish Democratic Union Party (PYD) and its military wing, the YPG should be excluded from the Russian-sponsored Syrian National Dialogue Congress planned for early 2018 may put it at odds with Russia.

A clash between Turkey and Kurdish forces is a real possibility in 2018. Erdogan remains deeply unhappy about Kurdish control of vast territory in the north-west (Afrin) and north-east (Kobani and Hasakah) of Syria and has vowed to oppose an autonomous and contiguous Kurdish region along Turkey's border, for which Washington and Moscow are preparing the groundwork. The Turkish Operation Euphrates Shield between August 2016 and March 2017 captured a number of towns in Syria and pushed the Kurdish military presence west of the Euphrates, but was only partially successful. Since then, Turkey has threatened to re-launch attacks against the Kurds. Yet while the US and Russia have previously opposed such attempts, part of the US opposition was due to the fact that it would undermine the battle against ISIS which the majority Kurdish Syrian Democratic Forces was deeply involved in, a battle that is now effectively over.

3. Saudi assertion

UK policy makers will be keeping a close eye on the leadership of newly appointed crown prince MBS in 2018. Under the direction of this 32-year-old, the Kingdom is transforming from a conservative regional actor to one with a very active agenda of domestic reform and an assertive foreign policy to confront both Iran and Sunni Jihadist threats. Saudi Arabia is therefore a state to watch due to its potential for surprising foreign policy initiatives; its existing entanglements in regional conflicts; and its sensitive internal reforms and succession intrigue.

Saudi Arabia's fate has major implications for Britain. By far the largest of the Arab Gulf

states, it is the world's largest oil producer, with around a fifth of the world's conventional reserves. Its stability has long been considered an important British interest, not only because of global oil supplies, but as an economic partner. It is Britain's largest market in the region, with exports worth nearly £5bn in 2016, and Britain is the second largest cumulative investor there. Saudi Arabia is also an intelligence partner countering jihadist movements.

Saudi Arabia is positioning itself as the leader of a more assertive Sunni Arab camp to push back against the growing influence of Iran and its proxies, but this comes with considerable risks. MBS's foreign policy initiatives have had problematic results, and suggest an impulsiveness and lack of clear strategic planning and foresight.

The most acute crisis is in Yemen, where a Saudi/UAE blockade targeting Iranian-backed Houthi rebels in the south is contributing to a massive humanitarian crisis. Almost 1m people have contracted cholera, 3m are displaced, and there is an imminent threat of famine. This is a live policy issue in the UK, with Saudi Arabia facing increasing international pressure to ease the blockade, and British arms exports to the Kingdom and the UK's role training Saudi forces under scrutiny. The Labour Party is calling for a suspension of arms exports to the Kingdom, and a review of all training contracts. The humanitarian crisis in Yemen will also require a massive international aid response, and a significant diplomatic effort to end the fighting. The continuation of the war risks further strengthening jihadist actors including ISIS affiliates and Al Qaeda in the Arabian Peninsula (AQAP).

Saudi efforts in Lebanon to push back against Iranian domination may continue in 2018. The resignation of Saudi client Saad Hariri from the role of Prime Minister, apparently orchestrated by the Saudi government, looked ham-fisted. It was apparently intended to remove a fig-leaf for an Iran-Hezbollah dominated government which uses Lebanon as a base for Iranian power projection. But Hariri's resignation, made extraordinarily from Riyadh in November, was rescinded in December, under intense Lebanese and international fear of chaos in the country. Tension over Hezbollah's involvement in regional

conflicts will remain, and Saudi Arabia may seek to use economic levers to increase pressure on Lebanon.

The Saudi leadership also faces a challenge to resolve the split with Qatar in the GCC. The Saudi led diplomatic and economic boycott of Qatar was launched in May 2017 over grievances, which *inter alia* includes its ties to Islamist groups and Iran. But Qatar is yet to concede to the extensive list of demands placed on it by the Saudis, along with UAE, Egypt and Bahrain. The boycott is seen by many in the West who value trade and security ties with both sides as costly and unproductive, and Western efforts to defuse the crisis will continue in 2018 with British backing. BAE Systems has just signed a major deal to sell Eurofighter Typhoon jets to Qatar. However, this intra-Gulf dispute is a divisive area within the US administration, with Secretary of State Rex Tillerson pressing for a compromise, and Trump offering fulsome support to the Saudis.

The Saudi leadership also faces the risk of internal friction caused by MBS's bold economic, cultural and religious reforms; and an anti-corruption drive which has seen billionaire princes detained. The decision to allow women to drive, a signature and symbolic domestic reform, is due to come into force in June 2018. Meanwhile palace politics will remain a source of interest. More experienced Saudi princes were pushed aside for MBS to become crown prince in June 2017, causing some to question whether succession will be entirely smooth, whenever it comes. King Salman is 82 and reportedly suffers from mild dementia.

4. The Israeli-Palestinian arena

Renewed activity on the Israeli-Palestinian issue

Expectations are waning that 2018 will be the year for a Trump administration peace initiative in the Israeli-Palestinian arena – certainly one accepted by both sides – due to the fallout from Trump's decision to recognise Jerusalem as Israel's capital. While a small but dedicated White House team led by Jared Kushner have been working on a plan – whose content is closely guarded – the timing, context, and framing of the Jerusalem announcement may have undercut their efforts. And while the

administration has referred to a “cooling off period,” Abbas's rejection of US mediation and his vow to resume efforts to seek UN membership for Palestine and recognition in other international forums may postpone the publication of the peace plan indefinitely or make it dead on arrival. As a sign of the breakdown in relations between the two, the US has responded to the Palestinian declarations that it will not engage with US mediation by threatening to cut hundreds of millions of dollars in funding including to the United Nations Relief and Works Agency (UNRWA), which provides services to Palestinian refugees and their descendants.

Israel media reports in November suggested the US plan would call for a Palestinian state based on land swaps but not citing the pre-1967 line as the basis (a key Palestinian demand). The US plan is said to include innovative elements to avoid evacuating either Jewish or Arab populations, and to offer incentives to both sides. It is said to formally recognise the extent of Israel's security needs, including a demand that Israel retain military control over the Jordan Valley, and it will offer the future Palestinian state hundreds of millions of dollars of investment and aid, to be provided by Saudi Arabia and other Arab countries.

Expectations for success were already low prior to the Jerusalem announcement. Israeli Prime Minister Benjamin Netanyahu has shown interest in an initiative involving regional players, especially Egypt and Saudi Arabia, but is tightly constrained by his chosen coalition partners who range from ambivalence to downright hostility towards a two-state solution. The Trump administration has sought to break from its predecessor by avoiding public clashes and overt pressure on Israel. However, unless it is willing to assert positions that will be uncomfortable for Netanyahu's current coalition, it has no hope of engaging the PA or the wider Arab world.

The renewed Palestinian internationalisation strategy may pose dilemmas for the UK government. Abbas is demanding an alternative mediator to the US, and has signalled that the Palestinians will resume its “internationalisation strategy” of joining numerous international organisations. Israel is unlikely to trust any other third party with a mediation role. The UK government may come under pressure to

clarify its position on Abbas' internationalisation strategy and attempts for full UN membership. The UK found itself in the position of voting against the US in both the UN Security Council (UNSC) and General Assembly resolutions critical of Trump's decision to recognise Jerusalem as Israel's capital, a pattern that could be repeated. On recognising the State of Palestine, British Foreign Secretary Boris Johnson has said "the moment is not yet right to play that card". The Labour Party has said it will immediately recognise Palestine if it enters government, and would likely back a Palestinian UN membership bid.

A US initiative that fails to get the support of one or both parties, or no initiative at all, leaves an unstable and uncertain diplomatic vacuum. The question is then how will the parties manage this situation, and whether other players, including European actors, seek to fill the vacuum with their own interventions. It is also unclear whether the US has a Plan B.

Palestinian reconciliation and crisis in Gaza

A Palestinian reconciliation agreement signed with much fanfare in Cairo in October is stumbling. There is no chance that Abbas's demand for Hamas to give up its weapons will be fulfilled in 2018. The current attempt to reunify the Gaza Strip and the PA areas in the West Bank under a single authority have gone further than its many failed predecessors, but is still struggling to bring real change in Gaza. Hamas's unwillingness to give up its arms puts in doubt other elements of the deal, including Abbas reversing economic sanctions he imposed on Hamas which exacerbated the infrastructure, energy and economic crisis, or Hamas joining the Palestine Liberation Organisation and any progress towards long-delayed elections. Abbas's forces have now been deployed on the borders, but it remains to be seen if the Rafah border with Egypt will start to function normally, or if Israeli border restrictions will ease. Another challenge is paying the salaries of the 100,000 Hamas and PA government officials. According to the reconciliation deal, this issue is due to be resolved by February 2018, yet this is highly unlikely. There is little enthusiasm in the international community to provide necessary funds – estimated to be \$40m a month.

While the reconciliation falters, Gaza's humanitarian situation deteriorates, and is already reaching a critical point. Some 95 per cent of the water is undrinkable; sewage flows into the sea; unemployment is around 40 per cent; there is only a few hours electricity each day; there is rising chronic malnutrition affecting children; and healthcare services are collapsing. Fixing Gaza's infrastructure is hindered by the lack of international donor funds, the faltering reconciliation Egypt's distrust towards Hamas, basic tensions with Israel, and Hamas diverting reconstruction materials to its own governance and military needs. The situation could get even worse if the US follows through on threats to cut financial support for UNRWA.

The humanitarian situation shortens the fuse for a renewed conflict with Israel which is a significant risk for 2018. Hamas's strategic challenges are exacerbated by new Israeli technology to identify and destroy offensive tunnels leading into Israeli territory. Israeli security officials say that by the end of 2018 the IDF will have completed the demolition of these tunnels. This created an immediate strategic dilemma for Hamas of whether to "use them or lose them". Hamas' attempts towards reconciliation with the PA, and its broader efforts in 2017 to distance itself from the Muslim Brotherhood and improve its regional standing with a revised political program, suggest it still seeks overall to stabilise the Gaza Strip and not a major escalation at this point. Hamas exerted considerable efforts in December 2017 to prevent Salafi organisations from firing missiles at Israel. But it has continued to try and strengthen its position and organise terror attacks in the West Bank and this will likely continue. With all these growing sources of tension and potential trigger points, and the involvement of Islamic Jihad and smaller Jihadist factions, it will not take much for escalation to occur.

High chance of Israeli elections

Israeli governments rarely see out their full term. Since 1996, the longest time between elections has been 47 months and most governments in this period have fallen some time into their fourth year. As Israel approaches its 70th birthday in May, the potential trigger for an election is the threat of indictment facing Prime Minister Netanyahu. A police recommendation finding

evidentiary foundation for breach of trust (and potentially bribery) is expected in the next few months after which the Attorney General will decide whether to indict. While none of his current coalition partners are interested in elections, which polling indicates would bring net gains for the opposition parties, a potential indictment might cause them to change direction or could even generate a *putsch* within the Likud if enough MKs feel the Prime Minister is a political burden. Netanyahu might try to trigger an election in anticipation of an indictment, in order to create political conditions in which the Attorney General would be under pressure not to advance the case for fear of being accused of political interference.

An election would be difficult to predict. Netanyahu looked in real trouble in 2015 until a very late swing returned him to power. The crucial question is whether corruption allegations would finally crack his base of support, and whether centre-Left alternatives can overcome the fears of a cautious centre ground that they can be trusted with security. If so, 2018 could be a year of major political change for Israel.

5. Egyptian instability and elections

Egypt's is another one to watch in 2018, due to its socio-economic and security challenges, combined with a forthcoming Presidential election. Egypt's stability is important for the UK, not only strategically, as the largest Arab state, but economically, since the UK is Egypt's number one foreign investor, with \$43bn of inflows this decade and over 1,450 British businesses active in Egypt, according the UK embassy in Cairo.

Lacking fighting spirit and suffering from poor use of intelligence, the army is struggling to contain a major insurgency by ISIS affiliated jihadists based in the Sinai, which has cost the lives of several thousand Egyptian security forces since 2013, and hundreds of civilians in terror attacks, notably Coptic Christians, and in November more than 300 worshippers at a Sufi mosque. Egypt gets intelligence help from Israel to counter the threat and has recently forged an agreement with Hamas to cease cooperation with ISIS in Sinai, as well as seeking to co-opt local tribes by carrying out much needed restoration in northern Sinai. However, the Sinai

could become an increased focus for ISIS activity in 2018, especially against soft targets, as the territorial base of the "Islamic State" in Syria disappears, fighters flock to the area, and the group is able to acquire sophisticated weaponry (such as the Kornet anti-tank missile that the group fired in an attempted assassination attempt of Egypt's Defence Minister and Interior Minister). The violence has badly damaged Egypt's tourism and has caused a loss of support for the army and the government and also threatens the Gaza Strip, Israel, Jordan, Saudi Arabia, and the security of the Suez Canal.

Meanwhile Egypt faces enormous socio-economic challenges. The IMF has praised economic reforms, and new Mediterranean gas fields have come on stream in late 2017 and will help reduce energy shortages and energy imports in 2018. But inflation is high, making life even harder for Egypt's poor, and there is a youth bulge with 30 per cent of Egyptians aged 15-29 out of work. The government seeks to keep control and prevent another revolution by closing down democratic space, arresting opponents and passing harsh legislative restrictions on NGOs.

Social stresses among Egypt's ballooning population are a major concern for Europe, given the potential for it to become another source of illegal migrants. Indeed, the UK government committed around £1.4m to a project for "Preventing and Responding to Illegal/Irregular Migration in Egypt" in February 2017.

Against this backdrop, presidential elections are due in March/April, with President Abdel Fattah al-Sisi looking to secure a second (and if he keeps his word final) term. Given the closed political space, the chances of anyone mounting a serious challenge to al-Sisi (who was credited with 97 per cent of the vote in 2014) appear slim, but the election will be a focal point for some regime opponents and turnout will be a test of the legitimacy of the regime.

CONCLUSION

The defeat of ISIS, the stabilization of Assad, Russia's presence, and the absence of a strong US counter strategy in Syria will continue to embolden Iran in its regional agenda, although whether the economic grievances of the Iranian

public – reflected in recent demonstrations – force the regime to curb its regional ambitions remain to be seen.

Although Saudi Arabia is trying to position itself as the leader of a more assertive Sunni Arab camp and to counter Iran, the young and adventurous Crown Prince has had little foreign policy successes to show so far and deep questions remain as to how effective his more aggressive strategy will be.

The sheer number of moving pieces in Syria – the regime heading south, Iran seeking to establish military bases, Israel becoming more active in preventing the establishment of Shi'ite militias, and Russia looking to maintain its dominance – are creating a combustible situation with high potential for miscalculation, error and rapid escalation between Israel, Iran and its allies.

While much of the UK's foreign policy focus will be on Brexit, the country has an important role in providing support to its traditional allies Egypt, Saudi Arabia, Israel and Jordan, as well as to counter Iranian influence in Syria, together with the US. It will also be challenged – alongside its European partners to the JCPOA – to design a strategy that will tighten some of the existing loopholes of the nuclear agreement in order to prevent Trump leaving the deal.

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APPENDIX | 2018 PREDICTIONS

To accompany this 2018 Forecast, BICOM asked five renowned Middle East experts for their three predictions for 2018.

Dr Michael Koplow, Policy Director, Israel Policy Forum

1. Israel's military involvement in Syria will increase, and may lead to fighting between Israel and Iranian forces and proxies in Syria. As the Syrian civil war winds down and Russia and Iran cement Bashar al-Assad's hold on a large portion of the country, Israel's perceived threat from Iran's growing and more entrenched military position in Syria will become more acute. This will also increase the chances of war on Israel's northern front with Hezbollah and other Iranian forces based in Syria and Lebanon.
2. US President Donald Trump will pull out of the JCPOA, creating a crisis between the US and its European allies over Iran. The protests in Iran that ushered in 2018 will only harden Trump's instincts to challenge the Iranian regime, and the first year of Trump's presidency has demonstrated that his foreign policy pronouncements and campaign promises can be postponed but are difficult to completely deter. Ditching the JCPOA appears to now be at the top of his list.
3. Israel will see its first new prime minister in nearly a decade. The investigations into Prime Minister Benjamin Netanyahu are likely to culminate later this year in a police recommendation to indict him. This will either lead the Likud to force him to step aside in favour of a new party leader, or lead Netanyahu to take the country to elections in an effort to forestall an indictment, which will result in a new coalition headed by Yair Lapid.

Dr Jonathan Spyer, Middle East Forum

1. As the regime side in the Syrian war continues to gain ground at the expense of the declining rebellion, a central concern to observe is the emergent contest of will between Israel and Iran on the soil of

southern Syria. Iran has ensured its land corridor by the conquest of Abu Kamal on the Syria-Iraq border. Israel considers that the Iranians want to create an infrastructure directed against Israel in southern Syria, and Israel is determined to prevent this. As a result, the possibility of friction between Israel and Iran and its allies in Syria/Lebanon has increased.

2. Elections are due to take place in Iraq in May 2018. The elections will center on the contest between pro-Iran factions and figures including the Badr Organization and former Prime Minister Nuri al-Maliki, and their opponents, such as Muqtada al-Sadr and former Prime Minister Iyad al-Allawi. Crucial to observe will be the role played by the militias of the Popular Mobilization Forces (Hashd al-Shaabi). A number of significant Shia militia components of the PMF have registered to take part in the elections (against the wishes of Prime Minister Haidar al-Abadi). Sectarian tensions are likely to increase in Iraq around the time of the polls.
3. The US has recently made clear that it intends to maintain forces in Syria east of the Euphrates for the foreseeable future. Iran and Bashar al-Assad have been equally clear that they regard any such US presence as unacceptable. At present, US-supported and Iran/Russia supported forces are facing each other along the river. Exploratory probes from the Iran/Assad/Russia side intended to test US resolve (which these players may well take to be wavering, and vulnerable to pressure), are likely in the year ahead.

Dr Claire Spencer, Senior Research Fellow, Chatham House

1. As in Iran, civil unrest and localised protests will increase across the Middle East, as a reminder to regional leaderships to meet domestic expectations over economic reforms. On the "seven year itch" principle, a new post-Arab Spring generation is coming of age with worse prospects for their ambitions and potential than in 2010-11. Precisely because the Middle East will see a return to growth in 2018, people will take to the streets where perceptions of official

corruption are high. Demands will be less about regime change and democracy than the impact of rising living costs, taxation, joblessness and official impunity. Particularly vulnerable are Turkey, Egypt, Jordan, and Gaza should the Fatah-Hamas agreement fail. North Africa (Morocco to Libya) and Saudi Arabia will also not be immune.

2. Regional and external powers with an agenda they can act on will continue to dominate developments in the Middle East, notwithstanding few conclusive outcomes this year. Russia, Turkey and Iran will hold firm on strategic issues that matter to them, even as they fail to broker peace in Syria or resolve the threat posed by Kurdish activism (PYD/PKK for Turkey). The EU and US will remain second rung bystanders to the region's conflicts due to their lack of consensus, strategy and material backing for enforceable solutions to the conflicts in Syria, Yemen and Libya. China will continue to acquire economic assets across the region, gaining political leverage, if not yet an overtly diplomatic role. Saudi Arabia will suffer from initiative overload, both externally and internally, while Qatar quietly thrives.
3. Regional and/or internationally-brokered peace between Israel and the Palestinians will make no headway through traditional channels, but some changes to the political landscape (the judicial removal of Israeli Prime Minister Benjamin Netanyahu; the forced resignation of PA President Mahmoud Abbas) will provoke internal re-alignments on both sides. New forms of civic activism will not be enough to compensate for the lack of leadership, meaning that the risk of spontaneous violence, along with official and covert conflicts remains high.

Sir John Jenkins – Executive Director of the International Institute for Strategic Studies

1. The recent protests in Iran show that no one really knows when something significant is going to occur in the region. US financial pressure on the IRGC – combined with the domestic protests – could potentially stop Iran being so involved overseas. In light of

this, this would be an ideal opportunity for the US to reinsert itself back “into the game” and dial down Iranian activity around the region more widely. Yet so much depends on strategic policy coherence in Washington which is not a given.

2. The next big flash point may occur in southern Syria, which is one of the last places in the Middle East where all the major players – Hezbollah, Israel, Saudi Arabia, Iran, Jordan – can come into contact.
3. While the biggest domestic test for Saudi Arabia is job creation, subsidies issues by Crown Prince Mohamed Bin Salman's (MBS) to assuage domestic public opinion are making it harder to wean people off the public sector. MBS' strategic goal is clear, but structural deficiencies are forcing him to adopt contradictory policies not aligned with bringing Saudi Arabia socially and economically into the 21st century. The contradiction between the sense of urgency from MBS and the need for strategic patience to implement significant parts of his plan will likely begin to emerge in 2018.

Shalom Lipner, Non-Resident Senior Fellow, Center for Middle East Policy, Brookings

Never has the Talmudic postulate about prophecy “being given to fools” been more relevant than today. Policy practitioners have all been humbled by the multitude and pace of potentially game-changing events over the past year. With that in mind, I offer three modest predictions.

1. Politics will play a defining role in the region, as changes in leadership loom large. Examples abound. Elderly men in poor health hold the helm in places like Iran and the Palestinian Authority. Legal challenges threaten to unseat Israel's prime minister, and possibly even the president of the United States. The repercussions of domestic reform in Saudi Arabia could jeopardize the throne. Continued instability is a foregone conclusion.
2. Russia will capitalise on this instability to further advance its allies and regional

agenda. The Trump administration's general malaise toward the international system – where it invests little, beyond rhetoric – will ensure that America's partners in the Middle East continue to hedge their bets with the Kremlin.

3. The proverbial peace process between Israel and the Palestinians will remain comatose. Neither party will regain its lost appetite for negotiations, citing an absence of trust in the other. And the increasing convergence of interest between Israel and moderate Sunni regimes will maintain pressure to address Palestinian claims at perfunctory levels.

Professor Eyal Zisser, Vice Rector, Tel Aviv University

1. The crisis in Syria will continue to be a microcosm of the problems and challenges facing the Middle East as well as an indicator of the direction which this region will follow. Fighting there will subside, even if it doesn't die out altogether. Assad will manage to impose his rule on most parts of the country. Israel will continue to take military action in order to stop Iran from entrenching itself in Syria, even if those very actions – which are intended to avoid deterioration – ultimately lead to war.
2. The American initiative to promote peace between Israel and the Palestinians will not yield any results. What this will mean is that the status quo on the West Bank and the Gaza strip will continue, accompanied by ongoing tension and even outbursts of violence between Israel and Hamas.
3. Iran, alongside Russia, will continue to expand the circuit of their influence in the region while taking advantage of the United States' lack of interest and perhaps also of ability to play a leading role in the Middle East. The Arab states as well as Turkey cannot at the moment serve as a counterweight to the Russian-Iranian alliance which is increasingly considered worldwide as a regional stabilizer rather, as Israel and Arab states consider it to be, a threat to regional security.

This report has been produced by BICOM's research team in consultation with British and Israeli security experts. We are grateful for their help.

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For more information please contact:

Charlotte Henry, Senior Press Officer

020 3745 3348

07879 644099

charlotteh@bicom.org.uk